GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3923
ANSWERED ON:22.08.2003
FRAUDS IN BANKS
BIR SING MAHATO

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) has made mandatory for banks to installsystem for reporting frauds and sought augmentation of investment fluctuation reserve by them;

(b) if so, the details thereof;

(c) whether the N.L. Mitra Committee has also made recommendations in this regard;

(d) if so, the details thereof; and

(e) the action taken in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO V. ADSUL)

(a) & (b):- The Reserve Bank of India (RBI) has reported that banks immediately reportIndividual cases of frauds of Rs.1.00 crore and above to its Central Office. Frauds ofRs.1.00 lakh and above and upto Rs.1.00 crore are reported to its Regional Offices andfrauds of amount less than Rs.1 lakh are required to be reported in a consolidated manner to its Regional Offices at quarterly intervals. Software on Frauds Reporting andMonitoring System for computerized reporting of frauds cases has been forwarded byRBI to all commercial banks.With a view to building up adequate reserves to guard against any possible reversal of interest rate environment in future, RBI has advisedbanks to build up Investment Fluctuation Reserve (IFR) with reference to theirinvestments in Held for Trading (HFT) and Available for Sale (AFS) categories.As per the extant guidelines, banks are required to build up IFR of a minimum 5%of their investments in HFT and AFS categories within a period of 5 years.The IFR is eligible to be reckoned as Tier II capital subject to a ceiling, along with general provisions and loss reserves, of 1.25% of the total risk weighted assets. On a review of the requests made by banks, it was decided that, while IFR will be eligible to be reckoned for Tier II, it will not be subjected to the ceiling of 1.25% of the total risk weighted assets. However, for the purpose of compliance with capital adequacy norms, Tier II capital including IFR, would be reckoned up to maximum of 100% of total Tier I capital.

(c):- No, Sir.

(d) & (e):- Do not arise